

**Date:** December 2, 2014

**To:** Thomas J. Bonfield, City Manager  
**Through:** Wanda S. Page, Deputy City Manager  
**From:** David Boyd, Finance Director  
Keith Herrmann, Deputy Finance Director  
Chad Cowan, Treasurer  
**Subject:** Adopt a Resolution Making Certain Statements of Fact Concerning a Proposed Bond Issue and adopt a Resolution Providing for the Issuance of Not to Exceed \$60,500,000.00 General Obligation Refunding Bonds, Series 2015

### **Executive Summary**

Based on favorable interest rates, the City is in a position to advance refund certain maturities of General Obligation Bonds ("GOs") and realize positive economic savings. The Finance Department is currently pursuing refunding portions of the City's outstanding GO Bonds Series 2005D, 2006B, 2008A and 2008B (collectively, the "Refunded Bonds") in the amount of \$55,545,000.00, which represents all of the callable maturities from each series. Based on market rates as of November 24, 2014, the refunding will generate approximately \$2,950,000.00 in net present value savings (NPV), or 5.3% of the Refunded Bonds. The City will continue to refine the refunding structure (i.e., identifying the best refunding candidates) up to the time of pricing.

### **Recommendation**

The Finance Department recommends that the City Council:

1. To adopt a Resolution of the City Council of the City of Durham, North Carolina making certain statements of fact concerning the proposed refunding bond issue;
2. To adopt a Resolution Providing for the Issuance of Not to Exceed \$60,500,000.00 General Obligation Refunding Bonds, Series 2015;
3. To authorize the City Manager or his designee to execute other associated legal documents as necessary to complete this transaction, and to make changes to any of the legal documents prior to execution, so long as the changes are consistent with the intent of the agenda item memo and the existing versions of the documents.

### **Background**

Over the past 10 years, the City has approved numerous bond authorizations and multiple bond sales. The proposed refunding anticipates refinancing a number of these series. The details of the Refunded Bonds are outlined below. The total refundable par is \$55,545,000.00.

<u>Series:</u>	<u>Issue Date:</u>	<u>Par at Issuance:</u>	<u>Amount</u>		<u>Call Date</u>
			<u>Outstanding:</u>	<u>Refundable Par:</u>	
2005D	11/5/2005	\$23,545,000	\$6,720,000	\$3,635,000	4/1/2015
2006B	11/1/2006	21,775,000	12,990,000	11,990,000	11/1/2016
2008A	8/5/2008	12,350,000	10,475,000	8,380,000	2/1/2018
2008B	8/5/2008	46,570,000	39,445,000	31,540,000	2/1/2018

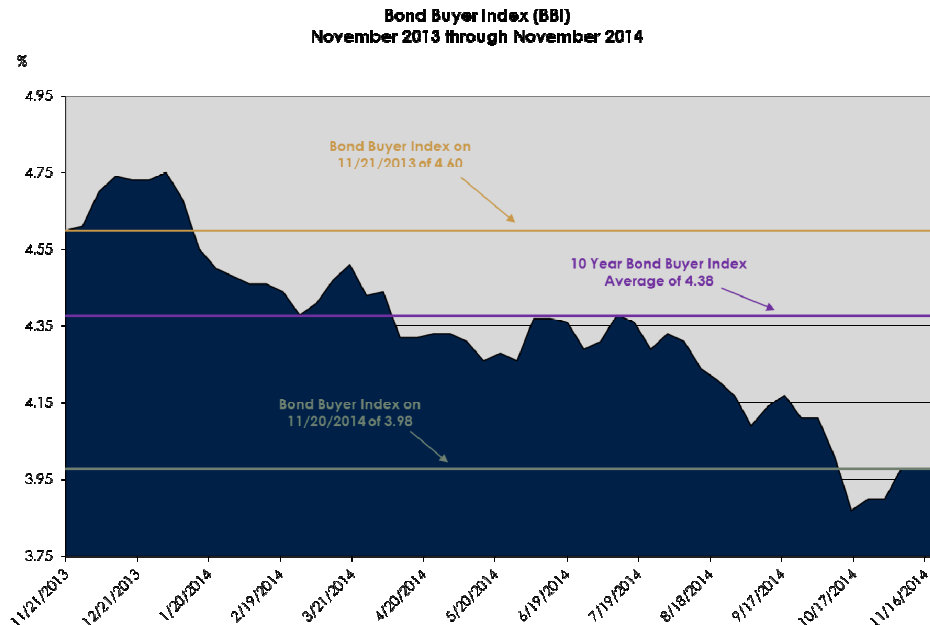
The City intends to refinance all of the callable GO Bonds from each series provided that they are economically viable. Depending on interest rates at the time of sale, the City may refinance less than all of the callable GO Bonds outlined above.

The City's current debt management policy (FP707.01) requires NPV savings of 5.0% of the refunded bonds but allows for refundings below this threshold to be evaluated on a case-by-case basis. The Government Finance Officers Association (GFOA) has a "Recommended Practice" related to advance refundings. The practice suggests a minimum refunding threshold of between 3.0% and 5.0% of the refunded bonds. The City's threshold is at the high end of the suggested range. As previously outlined, current savings levels are slightly above the City's target.

### Issues and Analysis

Given the low level of interest rates, the City has the potential to realize annual debt service savings by refunding previously issued bonds. Following a thorough evaluation of market conditions, interest rates, and other financing related expenses, the Finance Department has determined that a negotiated bond sale, as is common practice across North Carolina on refunding transactions, will provide the City with the best overall financing results. The bonds will be issued in conjunction with a refinancing of Limited Obligation Refunding Bonds and should help to minimize the costs of issuance related to the combined financings.

Current Interest Rates Over the past year, interest rates in the municipal bond market (and the broader bond market) have dropped to historically low levels. The following chart tracks the Bond Buyer Index (which estimates the approximate rates in the municipal market) over the past year.



As is clearly illustrated, the current rate of 3.98% is below the 1-year average rate of 4.38% and 0.60% below the rate one year ago.

#### Timing of Bond Sale

The sale date for the bond issue is planned for January 29, 2015 with a closing in late February or early March.

#### Financing Team

The Finance Department has filed an application with the Local Government Commission ("LGC") to sell the bonds through negotiated sale, and has retained Parker Poe Adams & Bernstein LLP and The Banks Law Firm as Co-Bond Counsel. The City's Financial Advisor, DEC, Inc has also been retained for the transaction. The underwriting firms Stephens Inc., PNC Capital Markets LLC and Blaylock Beal Van LLC have been hired to underwrite the bond issue. The Escrow Agent will be U.S. Bank National Association. Both the Banks Law Firm and Blaylock Beal Van LLC are minority owned firms.

Copies of the preliminary official statement for this issue will be available for review after December 16, 2014 in the City Clerk's Office.

#### **Alternatives**

The City could choose not to refinance the Refunded Bonds and there would be no savings realized.

#### **Financial Impact**

Refinancing the Refunded Bonds would result in decreased future debt service payments. An estimate of the savings is below.

#### Estimated Savings on the Refunded Bonds

Date	Existing Debt Service	Projected New Debt Service	Savings	PV Savings
6/30/2015	\$327,313	(4,495)	\$331,808	\$330,490
6/30/2016	3,879,300	3,579,320	299,980	280,653
6/30/2017	3,126,300	2,825,650	300,650	283,826
6/30/2018	3,568,688	3,265,950	302,738	279,070
6/30/2019	7,911,500	7,617,000	294,500	237,720
6/30/2020	8,763,900	8,467,875	296,025	226,795
6/30/2021	8,466,150	8,159,750	306,400	231,398
6/30/2022	8,168,400	7,870,375	298,025	219,241
6/30/2023	7,891,525	7,589,000	302,525	218,510
6/30/2024	7,613,775	7,315,125	298,650	210,634
6/30/2025	7,335,150	7,028,750	306,400	212,622
6/30/2026	4,659,488	4,356,250	303,238	223,069
	\$71,711,488	\$68,070,550	\$3,640,938	\$2,954,029

**SDBE Summary**

There are no SDBE issues with regard to this item.

**Attachments**

Resolution Making Certain Findings of Fact (3 pages)

Bond Order (as adopted) to be published after adoption (1 page)

Bond Resolution (13 pages)